

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. NO.: 4164-01
BILL NO.: HB 1882
SUBJECT: Taxation and Revenue - Property: Department of Revenue
TYPE: Original
DATE: February 28, 2000

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
General Revenue	\$0	(\$190,794)	(\$185,711,977)
Property Tax Deferral	\$0	\$0	\$0
Blind Pension	\$0	\$0	(\$930,000)
Total Estimated Net Effect on <u>All</u> State Funds	\$0	(\$190,794)	(\$186,641,977)

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
Local Government	\$0	(Unknown)	(Unknown)

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 5 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials of the **State Tax Commission** and the **Office of the State Treasurer** indicated that the proposal would not affect their agencies, administratively.

Officials of the **Department of Revenue** stated that the impact of this legislation is unknown but expected to be significant. The following impact is estimated and may need to be adjusted based on the number of deferments there are each year.

Programming

Because the Department of Revenue is not set up to deal with property taxes and the local counties, a complete new system will need to be created. This system will need to monitor the deferments, calculate interest, handle the distributions and process the lien and lien releases as described in this legislation. The Department will need **4 initial programmers for one year** to create the system and will need **2 on-going programmers** for system maintenance and distributions.

Key Entry

There are 115 counties with approximately 5 million taxpayers. The deferment will be an annual event, therefore, the Department will need **1 Data Entry Operator for every two counties (58 Data Entry Operators)**. The FTE will key property legal descriptions, property owner names, tax deferred amounts and any other information that the county or the Department will need to make the distribution and deferred report.

Collections and Disbursements

In order to file liens, release liens, track deferment amounts and handle the distribution back to the counties, the Department will need **1 Tax Processing Tech I for every three counties (39 FTE)**.

Oversight assumes that since the proposal does not take effect until property tax year 2002, that DOR will not need additional resources until FY 2002. Oversight assumes that Data Entry Operators and Tax Processing Technicians will not be needed until January of 2002.

Oversight estimated possible amount of deferrals. Recent increases in assessments for residential properties have been 12% in reassessment years (or about \$3,100,000,000 affecting FY 2002 and 2003). Assuming an average tax rate of \$5.87 per \$100 assessed valuation, the possible loss computes to about \$181,970,000 for FY 2003. The Blind Pension Fund Tax, which is \$.03 per \$100 assessed valuation, reimbursement would be about \$930,000 in FY 2003. This would
ASSUMPTION (continued)

represent maximum amounts; that is, the amounts which would be deferred if all eligibles would take a deferment. (For fiscal note purposes it is assumed that up to 1.4 million taxpayers could be affected.)

<u>FISCAL IMPACT - State Government</u>	FY 2001	FY 2002	FY 2003
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GENERAL REVENUE FUND

Department of Revenue (DOR)

Personal Service (4, 99 FTE)	\$0	\$135,628	\$2,052,135
Fringe Benefits	\$0	\$41,706	\$631,032
Equipment and Expense	<u>\$0</u>	<u>\$13,460</u>	<u>\$652,810</u>
Administrative cost to DOR	\$0	(\$190,794)	(\$3,335,977)
Cost for mailing lien notifications (\$.29 x 1,400,000)	\$0	\$0	(\$406,000)

<u>Cost</u> - Transfer to Property Tax Deferral Fund	\$0	\$0	(\$181,970,000)
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ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>\$0</u>	<u>(\$190,794)</u>	<u>(\$185,711,977)</u>
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PROPERTY TAX DEFERRAL FUND

<u>Income</u> - Transfer from general revenue	\$0	\$0	\$181,970,000
<u>Cost</u> - Distributions to County Clerks	\$0	\$0	(\$181,970,000)

ESTIMATED NET EFFECT ON PROPERTY TAX DEFERRAL FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
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BLIND PENSION FUND

<u>Loss</u> - Deferred Property Taxes	\$0	\$0	(\$930,000)
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ESTIMATED NET EFFECT ON BLIND PENSION FUND	<u>\$0</u>	<u>\$0</u>	<u>(\$930,000)</u>
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<u>FISCAL IMPACT - Local Government</u>	FY 2001 (10 Mo.)	FY 2002	FY 2003
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POLITICAL SUBDIVISIONS

<u>FISCAL IMPACT - Local Government</u>	FY 2001 (10 Mo.)	FY 2002	FY 2003
<u>Income</u> - Reimbursements from state	\$0	\$0	\$181,970,000
<u>Cost</u> - Property tax deferrals	\$0	\$0	(\$181,970,000)
<u>Cost</u> - County Clerks' Administration	\$0	(Unknown)	(Unknown)
ESTIMATED NET EFFECT ON POLITICAL SUBDIVISIONS	<u>\$0</u>	<u>(UNKNOWN)</u>	<u>(UNKNOWN)</u>

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

DESCRIPTION

This proposal would allow residential real property owners to defer increases in real property tax on their principal residence until the property is sold or transferred. Property owners would have to grant the state a lien on the property in order to qualify for the deferment.

County clerks would each year calculate the amount of property tax lost due to deferments and clerk costs for filing and releasing liens. The clerks would send this information to the Department of Revenue, which would inform the State Treasurer and the General Assembly of the amount of property tax deferred.

The General Assembly would appropriate from the General Revenue Fund into the Property Tax Deferral Fund, created in the proposal, monies equal to the amount of property tax deferred. The Department of Revenue would reimburse each county for its losses due to real property tax deferrals.

The Department of Revenue would recover the amount of deferments through reimbursement by owners or by execution of liens at the next sale or transfer of properties receiving deferments.

The proposal has an effective date of January 1, 2002.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space. This proposal would not affect Total State Revenue.

SOURCES OF INFORMATION

Department of Revenue

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State Tax Commission
State Treasurer

A handwritten signature in black ink, appearing to read "Jeanne Jarrett". The signature is stylized with a large initial "J" and a cursive "T".

Jeanne Jarrett, CPA
Director
February 28, 2000